Q2 2019 | Putnam Multi-Cap Core Fund Q&A

The opportunity in the valuation gap

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(Photo not available)

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You have the flexibility to invest across a range of capitalizations and styles. How did U.S. equities perform in the second quarter?

Markets were more choppy in the second quarter, but stocks advanced even as investors became increasingly nervous about the U.S.–China trade conflict and slowing economic growth. Large-cap and growth-style stocks performed best, while small-cap value was the weakest area of the market. For the quarter, the fund advanced and outperformed its benchmark, the Russell 3000 Index. Although small-cap stocks have underperformed, I wouldn't say they offer more compelling opportunities just yet. However, there are many large-cap stocks that have declined to valuation levels that we believe are now quite attractive.

Investors have been worried that the economic slowdown could lead to a recession. What is your perspective on this?

While the U.S. economy has slowed somewhat, we believe recession concerns are premature. Certainly, there are risks for the economy — particularly a prolongation or acceleration of the trade conflict with China. Trade and tariff issues could affect corporate earnings growth, which has declined this year. In most cases so far, we have not seen much of an impact on earnings, as tariffs have largely been passed on to consumers. However, further setbacks, such as additional tariffs on imports from China, could be detrimental to earnings and GDP growth. On the other hand, a resolution to the trade war could reaccelerate the economy and boost earnings growth.

Where are you finding opportunities in today's market?

In the current environment, investors have been flocking to the market's fastest and most consistent top-line growers, without much regard for their valuations or even for bottom-line earnings. Many of these large-cap stocks are represented in our portfolio, but we hold them with a bit more caution than we did a year ago, as we believe their valuations are quite stretched.

We believe that some of the best opportunities can be found elsewhere. For example, we are seeing a provocative disparity in valuation between the market's most expensive and least expensive stocks. We want to take advantage of this unusually wide valuation spread, digging deep in our research for companies with earnings potential that is much more attractive than the market is recognizing. When this period of valuation disparity comes to an end, we believe these stocks are poised for meaningful appreciation.

Which sectors might benefit from such a shift?

We are very interested in the energy sector, which was severely punished in late 2018 and was the weakest performing sector in the 2019 second quarter. We believe energy stocks are attractively valued, particularly as these companies have worked to improve their capital allocation. Another area that interests us today is the metals and mining sector, where valuations are at historically low levels.

Putnam Multi-Cap Core Fund (PMYYX)

Annualized total return performance as of 6/30/19

Class Y shares Inception 9/24/10	**Net asset value**	**Russell 3000 Index**
Last quarter	4.45%	4.10%
1 year	6.15	8.98
3 years	15.17	14.02
5 years	9.04	10.19
Life of fund	14.61	13.50

Total expense ratio: 0.77%

Returns for periods of less than one year are not annualized.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

Recent performance benefited from a settlement from Household International, a unit of HSBC Holdings Plc.

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For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers, as of June 30, 2019. They are subject to change with market conditions and are not meant as investment advice.

Consider these risks before investing: Investments in small and/or midsize companies increase the risk of greater price fluctuations. Growth stocks may be more susceptible to earnings disappointments, and value stocks may fail to rebound. Stock prices may fall or fail to rise over time for several reasons, including general financial market conditions, changing market perceptions, changes in government intervention in the financial markets, and factors related to a specific issuer or industry. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. You can lose money by investing in the fund.

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